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IN THE

SUPREME COURT OF THE UNITED STATES.

OCTOBER TERM, 1964.

No. 270

REPUBLIC ENGINEERING & MANUFACTURING CO.,
Petitioner,

vs.

MILTON A. MOSKOVITZ, MICRO PRECISION ENGINEERING CO., a Corporation, APEX METAL PRODUCTS CO., a Corporation.

and

HARRY FRANKEL,
Respondents.

PETITION FOR WRIT OF CERTIORARI

To the St. Louis Court of Appeals.

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To the St. Louis Court of Appeals.

Your petitioner, Republic Engineering & Manufacturing Co., prays that a writ of certiorari be issued to review the judgment of the St. Louis Court of Appeals entered in the above entitled case on March 17, 1964. Petitioner's motion for rehearing was filed March 31, 1964 and denied April 13, 1964. Petitioner's motion to transfer case to

the Supreme Court of Missouri was filed with the Court of Appeals on March 31, 1964 and was denied April 13, 1964. On May 12, 1964, petitioner made application to the Supreme Court of Missouri to transfer said cause for review from the St. Louis Court of Appeals. Said application was denied by the Supreme Court of Missouri on June 8, 1964. Motion to stay Mandate was sustained July 2, 1964. The opinion of the St. Louis Court of Appeals is reported in 376 S. W. 2d page 649 (advance sheet).

JURISDICTION.

The judgment of the Court of Appeals being entered on March 17, 1964 and motion for rehearing being denied April 13, 1964, jurisdiction of this Court is invoked under 62 Stat. 929, 28 U. S. C., Section 1257, Subparagraph 3, which provides for review by certiorari by the Supreme Court where any title, right, privilege or immunity is especially set up or claimed under the constitution, treaty or statutes of the United States, together with 66 Stat. 810, 35 U. S. C., Section 261, second paragraph thereof which provides as follows:

> "Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner, grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States."

The jurisdiction of this court is invoked because the St. Louis Court of Appeals has, in effect, denied the existence of the right of owner of a patent application to grant an exclusive license on his patent and denied Petitioner's right to enforce the application right so expressly conferred by the above statute.

So far as the question involved is concerned the decree is final. The subject matter of the suit has been finally decided. Radio Station WOW v. Johnson, 326 U. S. 120, 125, 126, 127, 65 S. C. 1475; Gulf Refining Co. v. United States, 269 U. S. 125, 46 S. C. 52; Collins v. Miller, 252 U. S. 364, 371, 40 S. C. 347; Carondelet Canal & Navigation Co. v. State of Louisiana, 233 U. S. 362, 34 S. C. 627, 629; Grant v. Phoenix Ins. Co., 106 U. S. 429, 431, 432, 1 S. C. 414-416; Forgey v. Conrad, 6 How. 201, 12 L. Ed. 204; Thompson v. Dean, 7 Wall 342, 19 L. E. 94.

RECORD.

The record in this cause was not printed as the rules of the St. Louis Court of Appeals permit filing of a typewritten record. The original certified record of the St. Louis Court of Appeals together with certain exhibits pertinent to the question involved is being submitted to the Supreme Court in place of printed copies of the record together with this petition for certiorari.

QUESTION PRESENTED.

An exclusive license agreement dated the 17th day of June, 1952, was made and entered into by Milton A. Moskovitz and others and Republic Engineering & Manufacturing Co., petitioner (Plaintiff's Exhibit 2), which provided in part on pages 2 and 3 as follows:

> "And whereas, the Licensee is desirous of obtaining the exclusive right to manufacture, use and sell movable joint devices covered by any or all of the above identified patent and patent applications and any and all improvements in movable joints made or acquired by said Licensors, or either of them, in and for the purpose known in the trade as the 'replacement' market as distinguished from the 'original

equipment' market. As presently understood, movable joint devices to be made or contemplated to be made will be of the ball type or substantially equivalent universally or semi-universally movable types of joints suitable in and to be used for one or more of the following purposes:

"1. For automotive steering assemblies including steering arm joints, drag link ends, and tie rod ends;

"2. For automotive wheel mounting and suspension assemblies including ball joint mounting and suspension parts;

"3. Movable joint devices for other automotive parts, mountings, and assemblies; but this enumeration of purposes is illustrative only and does not limit the generality of this license to cover all of the aforesaid types of **movable joint devices covered by any present or future patent or patent application owned or acquired by said Licensors or either of them**" (Emphasis ours).

Said license further provided in Paragraph 2 as follows:

"2. Licensors jointly and severally grant to Licensee the exclusive right and license to make or have made, use and sell throughout the United States, under the hereinbefore designated patent and patent applications, including any reissue, divisional, continuation applications filed or patents issuing thereon, and under any and all future improvements made or acquired by said Licensors or either of them, movable joint devices as described on pages 2 and 3 hereof for any of the purposes hereinbefore specifically or generally stated, such exclusive rights, however, to be limited to the 'replacement' market, as that term is understood in the trade and as distinguished from the 'original equipment' market. * * *"

The license contract, Paragraph 13, further provides that Moskovitz should diligently pursue any applications for patents on improvements and if he did not do so that plaintiff had the right to make application for patents in his name. Paragraph 4 of the contract further provided for payment of royalties on devices manufactured and sold on patent applications and any patent issued thereon filed or acquired by Licensors (Pa. 5 and 6 of Pltf. Ex. 2). Without the knowledge of petitioner Moskovitz made improvements in movable joint devices and proceeded to manufacture and sell them (Tr. 20-42). Upon discovering this, petitioner filed an injunction proceeding in the Circuit Court of the City of St. Louis to enjoin such actions on the part of Moskovitz and to restrain him from violating the terms of his contract (Green Tr. 1). After the suit was filed and the issues made up, as soon as plaintiff could do so, upon advice from its patent attorneys, two applications for patent in the name of Moskovitz were filed by petitioner when Moskovitz refused to sign the applications therefor on the ground that they were unpatentable (Tr. 39, 75, 115, 116, 117). The license contract, Paragraph 18, further provided that he should disclose to licensee all improvements he had made in the field licensed. At the time of the trial below the Patent Office had not ruled upon said applications for patents. The Circuit Court after a prolonged hearing granted the injunction and enjoined Moskovitz from violating his contract by manufacturing or selling the devices in question. Appeal was taken by defendants to the St. Louis Court of Appeals which entered its opinion reversing the decree of the Circuit Court and remanded the case for further proceedings not inconsistent with its opinion. The opinion of the Court of Appeals has cited cases stating the law, but its conclusions are inconsistent with the question involved.

The question presented is whether petitioner's rights which have arisen through 35 U. S. C. 261 should be pro-

tected by injunction against licensor when there are pending applications for patents on improvements by licensor within the scope of the exclusive license contract authorized by said statute. Thus, a Federal question is involved inasmuch as where a contract is made under authority of said statute, the rights arising thereunder have been decided by the St. Louis Court of Appeals adversely to the rights of petitioner derived under that statute. The statute involved, 35 U. S. C., Section 261, Second Paragraph, is set out above. The St. Louis Court of Appeals has in effect decided a Federal question of great substance, affecting the rights of petitioner, that so far as petitioner can ascertain, has not been determined by this Court heretofore. If the decision of the St. Louis Court of Appeals is not reviewed by this tribunal, the rights of patent **applicants** to confer exclusive licenses and the rights of licensees to enforce such exclusive rights as against the grantor-applicant will be subject to question in hundreds of similar situations. The confusion resulting from this failure to recognize and respect the specific wording of a Federal Statute will be devastating to all patent applicants and their licensees.

STATEMENT.

Defendant Moskovitz granted an exclusive license to petitioner to manufacture and sell movable joint devices for automotive wheel mounting and suspension assemblies under his patents and patent applications including improvements in that particular field. Petitioner is a wholly owned subsidiary of Moog Industries, Inc. The contract further provided that Moskovitz was to provide petitioner with improvements he designed in this field and to furnish plaintiff with drawings disclosing the same, whether or not he considered them patentable. The contract provided that Moskovitz was to file application for patents on improvements on the petitioner's decision and

if he failed to do so, that petitioner could file application for patents in his behalf. Moskovitz designed improved ball joint devices, one for General Motor cars and one for Chrysler cars, and proceeded to manufacture and sell them not disclosing any of this to petitioner. When petitioner discovered Moskovitz's actions, it bought some of the ball joints in question that were on sale by others.

Moskovitz told viewers of his improved ball joint at an auto parts show that his ball joints were new and improved designs over the ball joints he had designed for Moog Industries, Inc. (Tr. 154-155), parent company of petitioner. Petitioner requested Moskovitz to sign patent applications therefor and he refused on the ground that they were not patentable as being covered by prior art, and petitioner thereupon filed applications for patents on Moskovitz's behalf in the U. S. Patent Office which were accepted by the Patent Office, but patentability had not been determined by the Patent Office at the time the cause was heard on the merits. Plaintiff had filed suit to enjoin Moskovitz and his wholly owned subsidiary corporation, Micro Precision Engineering Co., from violating the terms of his contract. The Court, after a hearing on an order to show cause, entered its Temporary Restraining Order against Moskovitz and Micro Precision enjoining them from violating the terms and provisions of the contract upon plaintiff filing a $75,000 bond, which bond was filed. Moskovitz and Micro Precision filed an answer and a counterclaim to the effect that the devices in question did not come within the scope of the contract, were unpatentable and that the license contract was invalid as being contrary to Anti-Trust laws and against public policy. After a hearing on the merits, the Court entered its final decree in favor of plaintiff, enjoining Moskovitz and Micro Precision from violating the terms of the contract, holding that the improved devices in question came within the scope of the contract whether patentable or

unpatentable, refused to rule on patentability and dismissed the counterclaim. On appeal, the St. Louis Court of Appeals ruled that the license contract contemplated only future improvements that were patentable, that it had no jurisdiction to rule on patentability, that "Moskovitz could not grant that which he did not have or could ever acquire and neither he nor plaintiff, his licensee, could ever have or acquire the right to exclude others unless and until a patent was actually granted on his improvement" (p. 657 of S. W. 2d Reporter).

On page 19 of the Court of Appeals Opinion, the Court held that "Since the assignor or licensor of the original patent would have no right or title to an unpatentable improvement which he could convey, a court of equity would not require a future act by ordering him to convey that which he does not own" (Page 658 of S. W. 2d Reporter).

These two statements in the opinion completely ignore the existence of pending patent applications, **the purpose of which is to determine patentability**, and the right given by the Federal Statute to assign such pending applications and the concomitant right of the grantee or licensee to enforce the right granted.

The Court of Appeals held that Moskovitz had breached his contract in certain respects, that the contract was valid, affirmed that part of the decree dismissing the counterclaim, but reversed the remainder of the decree and remanded the cause for further proceedings not inconsistent with its opinion.

35 U. S. C., Section 261, was referred to in the opinion of the St. Louis Court of Appeals, but the rights of Petitioner under pending applications for patents within the exclusive license contract were not dealt with except that it stated that the words "patent application" can only refer to im-

provement honestly and conscientiously deemed to be patentable. In its brief filed in the St. Louis Court of Appeals, your petitioner cited the existing law as to its rights under the contract in numerous cases, many of which are cited in this petition for certiorari. In its motion for rehearing filed in the St. Louis Court of Appeals, the attention of the court was called to its failure to follow existing law on the rights of petitioner during the time that patent applications were pending and that the reasoning and conclusions of the court stemming from the case of **Gaylor v. Wilder,** 51 U. S. 47, cited by the Court of Appeals was contrary to existing law and had no application to pending applications for patents that were provided for in the license contract. In petitioner's application to the Supreme Court of Missouri to order the transfer of the cause from the St. Louis Court of Appeals, the rights accruing to petitioner under 35 U. S. C. Section 261, were referred to and requested to be protected, setting out that the statute authorized the contract that Moskovitz made included future patent applications and that where a right is given under the authority of a Federal Statute, the courts are under duty to protect that right. In petitioner's Memorandum filed with the Supreme Court of Missouri in support of its application for transfer, many of the cases cited below were included.

REASONS FOR GRANTING THE WRIT.

The St. Louis Court of Appeals held in effect that petitioner had no rights to protect against the inventor licensor so long as the devices in question had not yet been patented. It entirely ignored existing law as well as the provisions of 66 Stat. 810, 35 U. S. C. 261, Second Paragraph, which clearly provides that exclusive rights may be granted under patent applications to the whole or any specified part of the United States. Where a statute grants

a right, it naturally follows that the right should be protected. Otherwise, every patent license agreement which includes patent applications could be rendered ineffective for the purposes for which it was executed, whenever a licensor made an improved device within the scope of the contract, and chose to say that it was unpatentable and started the manufacture and sale of the improved device in competition with the devices which the licensee was manufacturing and selling under the license contract.

When Moskovitz entered into the exclusive license contract, he excluded himself from manufacturing and selling the improved devices described in future patent applications. During the pendency of any patent application he could keep no one else from copying and selling the devices in question, but he had contracted to exclude himself from doing so. This was what the licensee bargained for in its exclusive license. It is true that the licensee could not exclude anyone else from manufacturing and selling the devices during the pendency of the application for patent but the licensee did have the right to exclude Moskovitz from doing so by virtue of the license being exclusive.

Numerous cases were cited by your petitioner in its respondent's brief filed in the St. Louis Court of Appeals to this effect, many of which appear cited here below. All that the injunction granted by the Circuit Court did was to enjoin Moskovitz from manufacturing and selling the improved devices. These improved devices became the subject matter of two patent applications filed shortly after the suit was filed. The lower court held that by manufacturing and selling the improved devices, he had violating the terms of the exclusive license [his contract].

The St. Louis Court of Appeals to be consistent with the statute and the law, should at least have ruled that the injunction was proper pending final determination of

patentability of the inventions of the licensed patent applications. In **B. F. Gladding & Co. v. Scientific Anglers**, 245 F. 2d 722, 726, under a similar situation, the court said:

> "We are of the opinion that under the terms of the contract, Gladding had an inchoate right to an exclusive license under any patent application filed by Scientific."

and on page 729, the Court further said:

> "* * * prior to the issuance of letters patent on the applications * * * it is not necessary for the validity of a license agreement that letters patent be first issued * * *."

In **Hendrick v. Sayles**, 98 U. S. 546, 549, the inventor contracted to assign a patent the application for which was to be prepared later and filed. The Court held that such an assignment may be made before the patent was issued and that the exclusive interest was vested in the assignee even, though executed before the patent was granted. Under similar facts as in the Hendrick Case, supra, the Court upheld the complainant's right to injunction. **Carpenter Chemical Co. v. Lansdale Hosiery Co.**, 2 F. 2, 976, 979 (D. C. Pa.). To the same effect is **New Era Electric Co. v. Serell**, 169 N. E. 105, 106, 107 (N. Y.). In **New England Phonograph Co. v. Edison**, 110 F. 26, 28 (N. J.), the court held the license contract contained an implied negative covenant not to sell or deal in the articles in regard to which the exclusive rights were granted and that licensee had the right to restrain violations of such negative covenant. In **Chadeloid Chemical Co. v. Chalmers Co.** 243 F. 2d 606, 608, the contract provided for all improvements or inventions relating to paint and varnish removers. the court said at page 609:

> "Their plain intent was to safeguard the future of one particular business, that of paint removers. This

> is not unconscionable or an unreasonable restraint of trade (citing cases) nor does failure to limit the time during which the agreeing partners were to surrender the inventions violate the contract * * * Chalmers should have disclosed and assigned these various inventions; **therefore they are contractually excluded from any use of them and the injunction was in proper form**". (Emphasis ours).

The facts in that case are almost identical with those in the instant case except in instant case patent has not as yet been issued.

So, too, in the instant case since Moskovitz proceeded to manufacture and sell the improved devices petitioner was compelled to file applications for patent in Moskovitz's name in order to protect its rights, and had to file the injunction suit to prevent violation of the exclusive license. In **Universal Winding Co. v. Clarke**, 108 F. Sup. 329, 331, the court said:

> "What is meant by the promise to assign improvements? Does the phrase include anything more than patentable inventions? * * although the defendant could have no assignable property right in an unpatentable design, nevertheless he has a right at least to apply for a patent or any machine design evolved by him, and this inchoate right although not a property right is assignable. * * * The employee assumed an obligation to disclose to plaintiff all designs which he might make in the specified field * * * and invest in plaintiff all his inchoate right to apply for a patent * * * irrespective of its patentability as that should eventually be determined. It is a matter of common knowledge that there is a fairly broad borderland impossible of accurate definition between patentable machine designs and those not patentable. Not until

a patent application is prosecuted to final determination can the designer know whether a patent will be granted; * * * in the light of these observations * * * **it is scarcely sensible to construe the agreement to mean that the defendant employee reserved the right to judge for himself which of his designs were patentable and the right to retain free from his covenant any actually or purportedly believed by him to be unpatentable.** Instead I interpreted the agreement to mean that the defendant employee assumed an obligation to disclose to the plaintiff all designs which he might make in the specified field within the time limited and to vest in plaintiff all his inchoate right to apply for a patent on any machine evolved by him within the qualified classes enumerated irrespective of its patentability as that should eventually be determined" (Emphasis ours)

These words exactly describe the situation in the instant case and is a clear, succinct and logical conclusion on the part of the court as to the rights of a licensee. In **O'Neil v. E. I. duPont**, 21 Del. Ch. 76, 106A 50, 53, the court held:

"It is, however, no answer to the complainant's case to say that an inventor has no property right in his invention until he has obtained his patent (1 Robinson on Patents, 24), and that before obtaining his patent he has no right respecting his invention, which he can enforce in a court (Rein v. Clayton (C. C.), 37 Fed. 354, 3 L. R. A. 78). **Those principles have no application to a case where the inventor agrees that another may use the invention in consideration that compensation be made to the inventor in case the invention be found valuable. Such a contract would be enforceable as between these persons even if the patent never was issued.** The law as to patents has no application to the rights and

duties of the parties to the agreement under consideration." (Emphasis ours.)

In the O'Neil Case, the Chadeloid Case, and the Universal Winding Co. Case, all supra, the rights of the licensee, under the contract were all protected by the court, as the St. Louis Court of Appeals should have done in this case pending final determination of patentability. In **Flakice Corp. v. Short**, 115 F. 2d 567, 569, the court said:

"* * * There was contempated one field sufficiently broad to embrace all the patents then held. No field less than the small ice field itself would be thus broad, and Short's chipice machine unquestionably falls within that field * * * the purpose of this clause * * * was clearly to assure each party the support of the other and to protect each against the competition of the other. A construction which would make that assurance and protection conditional * * * would completely frustrate such purpose."

In **Kelly v. Porter**, 17 Fed. Rep. 519, 522, the court said:

"The defendants agree to pay the royalty for all the goods they manufacture, embracing the invention even before the patent issued, **when it was not certain that a patent would ever issue**, or that they would ever be under any obligation to pay a royalty; and, undoubtedly, securing the right to continue to manufacture after the patent should issue, was an important part of the consideration in the view of the defendant, **while receiving the royalty for the goods manufactured before the patent issued was, doubtless, deemed of no little importance by the parties applying for a patent.**" (Emphasis ours.)

The contract in the instant case specifically provided for payment of royalties on pending patent applications (Paragraph 4 Plaintiff's Exhibit 2).

In **Burton v. Burton Stock Car Co.**, 171 Mass. 437, 50 N. E. 1029, the court held:

> "It must be treated as settled that before the granting of a patent an inventor has a qualified property in his invention which is assignable, and which may have a value, and thus serve as a consideration for a promise to pay for a transfer and sale." (Emphasis ours.)

In the **Brush Electric Co. v. California Electric Co.**, 52 F. 945, 963, the court said:

> "There can be no doubt but that the Brush Company considered and treated the California Company as its exclusive licensee * * *. In the terms and grant of the license, it was contemplated that the license should extend to any patents which Brush Company should thereafter acquire pertaining to dynamo electric machines * * *. Under such circumstances, the Brush Company should be estopped to deny the validity of the license * * * on the ground that it had no existence at the time the grant of the license was made or on the ground that it had no authority at that time to grant the license. To hold otherwise would work a most extensive fraud upon the California Company."

In **Conway v. White**, 9 F. 2d 863, 866, the court said in a similar situation:

> "The contract in this case did not lack consideration and its plain intent was the protection of the business in which the company was engaged. It was not an agreement to assign in gross the defendant's future labors as an inventor, but only the inventions and discoveries made during the term of his employment and which in any way might affect the articles manufactured by the company * * * there was nothing

in the agreement which was unreasonable or which rendered it invalid or unconscionable."

In the early case of **A. B. Dick Co. v. Fuller**, 198 F. 404, 405, the court well said:

> "The reasoning by which the assignment of future improvements is supported is that the improvement may so overlap the invention as to constitute a successful hostile competition. * * * the same reasoning applies to any subsequent invention which relates to the same subject matter."

In the instant case, not alone did Moskovitz violate his contract, by manufacturing and selling the improved devices in question, but made an exclusive contract for the distribution and sale of same with Perfect Equipment Corporation of Kokomo, Indiana (Plaintiff's Exhibit 9). Moskovitz adjudged for himself that his improved devices were unpatentable. He never disclosed his improved devices to petitioner as required by the contract and when petitioner discovered what Moskovitz was doing, it immediately filed suit in the Circuit Court to enjoin him from violating the terms of his contract and proceeded through its patent attorneys after a comprehensive and objective evaluation as to patentability of such developments, to file applications for patents thereon in the United States Patent Office. The Circuit Court recognized that Moskovitz had violated his contract and enjoined him from manufacturing and selling the improved devices. Otherwise, any licensor could say his improvements were unpatentable and with impunity manufacture and sell them in competition with the devices which the licensee was manufacturing and selling under the terms of the exclusive license contract. Therefore, under the exclusive rights, which were granted by virtue of the provisions of 35 U. S. C. 261 covering patent applications, petitioner should be protected by injunction as the

Circuit Court did in this case. In the case of **Independent Wireless & Telephone Co. v. Radio Corporation,** 269 U. S. 459, 468, it was held that the owner of a patent who grants another the exclusive right to use it holds the title in trust for such licensee and must allow the use of his name as a plaintiff in an action brought by a licensee at law or in equity to protect licensee's rights or to enjoin infringement. The court further held at page 472 that equity will not suffer a wrong without a remedy and on page 473 further held that equity regards that as done which ought to be done. That is the exact situation here in the instant case. Moskovitz violated his contract and the petitioner should not be compelled to stand helplessly by while the Patent Office determines patentability on the patent applications. Petitioner has rights in equity which the Circuit Court upheld and which the St. Louis Court of Appeals has set at naught. Therefore, the rights that accrued to petitioner under 35 U. S. C. 261 should be protected and equity should not suffer a wrong without a remedy. Whatever inchoate rights that Moskovitz had in future improvements forming the subject matter of future patent applications had been, in effect, licensed to petitioner and petitioner in equity and under the statute and existing law is entitled to injunction.

Petitioner contends that this Court should uphold and protect plaintiff's rights to injunction as this Court did in protecting trade secrets by affirming an injunction in E. I. Dupont de Nemours Co. v. Masland, 244 U. S. 100, 103, 37 S. C. 75.

If the Court of Appeals decision stands, then every exclusive patent license contract is in danger so far as future patent applications by licensor are concerned. Vast amounts of inventory on licensed devices made obsolete by the improved devices could be rendered valueless. A great deal of machinery, tools and devices could be rendered valueless in the hands of licensees.

The interest of the public in general, and especially those in the manufacturing end who manufacture and sell devices under licensed patents or patent applications will be enormously affected should the decision of the St. Louis Court of Appeals be permitted to stand. To illustrate the great value of petitioner's exclusive license and its rights thereunder, petitioner paid to licensors $239,227.25 in royalties up to March 31, 1961 and for the quarter ending June 30, 1961, $21,400. Plaintiff's investment in equipment to make the patented devices it was selling under the contract was $213,144.24. It had expended for engineering $63,135.86 and had expended in advertising $190,013.79 (Circuit Court Order and Decree, Finding No. 14). Petitioner sought the injunction to protect its valuable exclusive license contract which equity should protect under the facts in this case. So far as petitioner can ascertain, this Court has never ruled on the question involved—the relative rights of a licensor and his exclusive licensee under a patent application prior to issue of a patent.

For the reasons assigned, it is respectfully submitted that this petition for writ of certiorari should be granted.

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